

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM BOARD OF ADMINISTRATION

PERFORMANCE & COMPENSATION COMMITTEE OPEN SESSION

MINUTES OF MEETING

December 9, 2005



The meeting was called to order at 11:17 a.m. and the following members were present:

Priya Mathur, Chair Robert Carlson George Diehr Kurato Shimada Charles Valdes

<u>Excused</u>

Michael Navarro

Other Board Members Present
James Zerio representing Philip Angelides
Nick Smith representing Steve Westly

AGENDA ITEM 2 – APPROVAL OF THE OCTOBER 14, 2005 PERFORMANCE AND COMPENSATION COMMITTEE OPEN SESSION MEETING MINUTES

The minutes were adopted.

AGENDA ITEM 3 – FIRST QUARTER STATUS REPORTS ON PERFORMANCE PLANS OF THE CHIEF EXECUTIVE OFFICER, CHIEF ACTUARY, CHIEF INVESTMENT OFFICER AND HIS DIRECT REPORTING STAFF

Chris O'Brien, Chief, Human Resources Division, presented the first quarter status reports of the Chief Executive Officer, Chief Actuary, Chief Investment Officer, and Senior Investment Officers. Mark Anson, Chief Investment Officer, responded to a number of questions regarding proposed changes in the performance plans of the Senior Investment Officers for Fixed Income and Global Equities. Board Member Carlson suggested that the change requests for performance plans be signed by the employee after they are approved by the Board. General Counsel Mixon responded that he wants to review existing Board policy to ensure consistency.

On **MOTION** by Dr. Diehr, **SECONDED** and **CARRIED** that the Board accept, with minor typographical corrections, the First Quarter Status Reports on the Performance Plans of the Chief Executive Officer, Chief Actuary, Chief Investment Officer, and His Direct Reporting Staff, and that the Board approve changes in the Performance Plans of the Chief Actuary; Senior Investment Officer, Global Equities; and Senior Investment Officer, Global Fixed Income.

AGENDA ITEM 4 – CHANGES IN SENIOR PORTFOLIO MANAGER AND PORTFOLIO MANAGER PERFORMANCE PLANS

In this information item, Ms. O'Brien reported changes the Chief Executive Officer and Chief Investment Officer approved in the performance plans of six portfolio managers. None of these changes will delay the completion of the performance measures.

AGENDA ITEM 5 – 2005-2006 PERFORMANCE PLAN FOR RECENTLY APPOINTED SENIOR PORTFOLIO MANAGER, CORPORATE GOVERNANCE

Ms. O'Brien explained that performance plans for newly-appointed investment management staff are presented on a flow basis as soon as possible following their appointment. The 2005-06 performance plan and duty statement for the recently-appointed Senior Portfolio Manager, Corporate Governance, were presented for first reading. A change in the language on the duty statement was suggested.

On **MOTION** by Mr. Shimada, **SECONDED** and **CARRIED** that the Board approve the initial reading of the 2005-2006 performance measures for the Senior Portfolio Manager, Corporate Governance.

AGENDA ITEM 6 –PROPOSED REVISIONS TO THE PERFORMANCE EVALUATION PROCESS FOR THE CHIEF EXECUTIVE OFFICER AND OTHER BOARD DIRECT REPORTS

Ms. O'Brien, Chief of Human Resources, outlined proposed changes to the fiscal year-end performance appraisal worksheet for the Chief Executive Officer. These changes were made following the Committee's request for a review of the performance appraisal process to incorporate more detail in specific areas of the CEO's year-end report. Staff reviewed the process and incorporated the Committee's suggestions for adding specific items to the reporting documents used for both the annual performance award and base pay increase. These changes would also apply to the Chief Actuary reporting process and the qualitative portion of the Chief Investment Officer's performance evaluation. These changes will be on an interim basis until a more comprehensive review of the executive compensation program is undertaken with the assistance of the executive compensation consultant.

In addition, a revision to the Compensation Policies and Procedures was proposed to add criteria for "special projects" on the CEO's plan. The added language was previously approved by the Committee and the Board.

On **MOTION** by Dr. Diehr, **SECONDED** and **CARRIED**, that the Board approve revisions to the Performance Evaluation Process and adopt changes to the Compensation Policies and Procedures.

AGENDA ITEM 7 – SELECTION OF THE RFP FINALISTS FOR EXECUTIVE COMPENSATION CONSULTANT

Ms. Mathur clarified that the evaluation panel for the Executive Compensation Consultant RFP, of which she was a member, reviewed all three firms who submitted proposals. Informational material on the three firms was distributed to the members of the Committee: McLagan Partners, Hay Group, and Watson Wyatt Worldwide.

On **MOTION** by Dr. Diehr, **SECONDED** and **CARRIED** that the Committee Recommend That:

- 1. The Board Approve Three Firms as Finalists for the Board's Executive Compensation Consultant Contract Award:
- 2. All Finalists be Interviewed; and
- 3. The Board Conduct the Interviews

AGENDA ITEM 8 – HUMAN RESOURCES DIVISION REPORT

There was nothing further to report.

AGENDA ITEM 9 – PROPOSED FEBRUARY 2006 AGENDA

The proposed agenda was approved.

AGENDA ITEM 10 – PUBLIC COMMENT

There was no public comment.

The next Performance and Compensation Committee meeting will be held on Friday, February 10, 2006 in Sacramento, California.